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BEFORE THE ARIZONA CORPORATION COMMISSION

JAMES M. IRVIN Chairman CARL J. KUNASEK Commissioner TONY WEST Commissioner

Russell E. Jones, SBN 000549

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Attorneys for Trico Electric Cooperative, Inc.

IN THE MATTER OF COMPETITION IN THE PROVISION OF ELECTRIC

SERVICES THROUGHOUT THE STATE OF ARIZONA

Docket No. RE-00000C-94-0165

RESPONSE OF TRICO ELECTRIC **COOPERATIVE, INC. TO JANUARY 6,** 1999 PROCEDURAL ORDER

Trico Electric Cooperative, Inc. ("Trico") submits these comments in response to the Chief Hearing Officer's Procedural order dated January 6, 1999, concerning the resolution of the remaining issues in electric industry restructuring.

- Trico suggests that the following issues need to be resolved in the following I. order with the method of resolving the issues and the timing of such resolution as set forth herein.
- The first fundamental issue to be resolved is whether the Retail Electric 1. Competition Rules, as amended ("Rules"); the Commission's Decision No. 60977 entered June 22, 1998 pertaining to Stranded Costs; the Commission's Decision No. 61303 entered December 30, 1998, pertaining to the Application of PG&E Energy Services Corporation

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("PG&E") insofar as it pertains to any hearing pursuant to A.R.S. §40-252 is concerned, and HB 2663 enacted by the Legislature in its 1998 Regular Session are constitutional.

Trico has asserted before the Commission and the Courts several reasons why the Rules, the designated Decisions and the Legislation are unconstitutional. Attached as Exhibit "A" are some of the constitutional provisions which Trico has asserted have been violated by such Rules, Decisions and Legislation.

As set forth by Arizona Electric Power Cooperative, Inc. ("AEPCO") in its response to the Procedural Order, the Commission has two alternatives:

- (1) If the Commission concludes that there is a serious question as to the constitutionality of the Rules, Stranded Costs Decision, PG&E Decision and the Legislation so that the people should decide whether retail electric competition should be implemented in Arizona by amending the Constitution, the Commission should issue a decision to that effect and instruct the stakeholders to propose necessary constitutional and statutory amendments to be voted on by the people in November, 2000.
- If the Commission continues to maintain that it has the necessary (2) constitutional power to adopt the Rules and such Decisions and the Legislature had the power to adopt such Legislation, the Commission should direct its legal staff to take appropriate steps to cooperate with all parties in the pending litigation before the Maricopa County Superior Court to promptly resolve all remaining issues in the Superior Court to enable an entry of a final appealable judgment and to enable all parties in the litigation to cooperate in requesting and participating in an expedited appeal or a special action, if appropriate. Such expedited resolution of the constitutional issues could be commenced within 30 days from an order of the Commission. How long the expedited trial court proceeding and appeal or special action would take is difficult to estimate, but A.R.S. §40-255 provides that such proceedings shall take precedence over all other civil matters except election actions. During the time the cases are winding their way through the courts, while the Commission's stay and waivers remain in effect,

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the Commission can continue to resolve all other issues necessary to implement competition when the Commission's authority is duly established by the adoption of the constitutional amendments or the final decision of the courts if it is to the effect that constitutional amendments are not necessary.

2. Should the CC&Ns of AUs be amended pursuant to A.R.S. §40-252 to permit ESPs to provide Competitive Services within the certificated areas of the AUs and what action should be taken by the Commission with respect to the applications for a CC&N of each prospective ESP to avoid multiple administrative and judicial remedial actions?

It has been factually established in the PG&E proceeding which has culminated in the Commission's Decision No. 61303 issued December 30, 1998, that none of the AUs have failed to provide electric service to customers within their respective certificated areas at reasonable rates in accordance with the rules, regulations and line extension policies of the respective AU approved by the Commission and at rates prescribed by the Commission. The Arizona Supreme Court has decided that with that factual predicate it is not in the public interest to permit competition. That decision has never been altered in any way and is the settled law in Arizona. It has further been established that the rates which PG&E not be based upon the fair value of the property of PG&E devoted to the public use, but instead will be negotiated rates based upon the market. These rates will be within a range of \$25 per kWh and PG&E's marginal cost. The average price for a kWh is between 3-5 cents. Therefore, this issue is to be resolved as a matter of law and the resolution should be expedited as set forth in 1 above.

Until the issue is resolved, it is essential that each application not end up in court separately. Instead, as suggested by AEPCO, the Commission should withhold a final decision on all such applications until such time as the legal issues are determined by the courts. This will not prevent pursuing the normal hearing process with post-hearing briefing if desired.

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Method in Resolving these Issues.

The 40-252 issues will have to be determined by the courts. All other aspects of such applications will be handled in the usual procedure by the Commission.

Timing of Such Resolution.

If the Commission will direct its counsel to expedite the A.R.S. §40-254 "appeals" in the Superior Court and appellate court, this should result in a final decision of the issue in much less time than in the usual cases of this type. By proceeding on all aspects of the applications with the exception of issuing the final decisions, much time will be saved.

3. Should Competitive Services be restricted to the sale of electricity (electrons)?

The Rules provide that Competitive Services shall consist of the sale of electricity and certain services which are fundamentally connected to distribution services: metering, meter reading, billing and collection. Trico believes it is unwise to make such services competitive. There is nothing in the Rules that prohibits an ESP from duplicating a meter serving a customer of one AU, making the AU's meter either useless or a liability as part of an inventory that will have only a salvage value in direct contravention of A.R.S. §40-281.B. Meters should be owned by the UDCs to eliminate Stranded Costs in the form of returned meters and meter testing equipment and related facilities being rendered useless. The rules provide that UDCs have the responsibility for meter testing and replacement, but they do not impose such responsibility on ESPs. The three electric functions: generation, transmission and distribution have historically been separated and they should be kept that way.

Method in Resolving Issue.

An attempt should be made by the stakeholders to resolve this issue amicably. If it cannot be resolved that way, the Commission should resolve it by hearing available to all interested stakeholders.

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Timing of Such Resolution.

The stakeholders should have an opportunity through informal meetings to settle the issue for approximately two months. If not resolved after that time, the issue could be resolved by the Commission deciding the matter after 30-60 prior written notice to all stakeholders.

4. Should Electric Distribution Cooperatives be permitted to offer competitive electric services in areas which are certificated after December 26, 1996, and in areas served by them pursuant to A.R.S. §40-281.B?

It is Trico's position that Electric Distribution Cooperatives should be permitted to offer competitive electric services within their certificated areas as such areas are increased or decreased after December 26, 1996 and, also, if it serves contiguous areas outside of its certificated areas, it should be permitted to offer competitive services in such contiguous areas.

Method in Resolving Issue.

An attempt should be made by the stakeholders to resolve this issue amicably. If it cannot be resolved that way, the Commission should resolve it by hearing available to all interested stakeholders.

Timing of Such Resolution.

The stakeholders should have an opportunity through informal meetings to settle the issue for approximately two months. If not resolved after that time, the issue could be resolved by the Commission deciding the matter after 30-60 prior written notice to all stakeholders.

5. Should the Affected Utilities be required to divest all of their competitive generation assets and competitive services prior to January 1, 2001, as provided in R14-2-1616.A?

The United States Supreme Court and lesser courts have held for decades that a regulatory commission does not own the assets of the PSCs it regulates and to require a PSC to

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sell any of its assets (that are not per se hazardous or otherwise illegal) deprives the PSC of its property without due process of law. Therefore, it is Trico's position that the Commission does not have the jurisdiction to require the divestiture of the generation assets or competitive services.

Method in Resolving Issue.

The Commission upon 60 days prior written notice to all stakeholders should hold a hearing to address this issue. If the Commission determines that to require divestiture of generation assets and competitive services is beyond its jurisdiction, it should issue an appropriate decision to that effect and rescind Decision No. 60977 and R14-2-1616.A accordingly. If the Commission is of the opinion that it has jurisdiction and it does not make such rescission, then the issue must be determined by the courts.

Time of Such Resolution.

The Commission's decision should require approximately 90 days from the Procedural Order to be formulated based upon the stakeholders' responses to the January 6, 1999 Procedural Order. The length of time to determine the issue in the courts depends to a large extent on whether the proceeding in the Superior Court and in the appellate court is expedited.

Should UDC be required to purchase electricity through competitive bids after 6. January 1, 2001 to serve Standard Offer customers, except purchases made through spot markets?

It is Trico's position that R14-2-1606.B should be deleted. Trico in 1962 entered into a Wholesale Power Contract with AEPCO which requires Trico to purchase all of its electricity from AEPCO. These Wholesale Power Contracts have been the backbone of the security for the loans made by the United States to Trico and to AEPCO. The Rules and legislation force Trico and AEPCO to breach that contract, thus unconstitutionally impairing the obligation of contract. By eliminating R14-2-1606.B, Trico and AEPCO can partially mitigate their losses resulting from the breach of the contract. Such elimination should not be significant. If Trico's customers believe that Trico's Standard Offer is too expensive, they can elect to purchase their electricity competitively.

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Method in Resolving this Issue.

Same as in 5 above.

Timing of Such Resolution.

Same as in 5 above.

7. Should the Rules provide for the recovery of Stranded Costs for distribution assets: if so, should the amount of Stranded Costs be limited to those distribution assets acquired or entered into prior to December 26, 1996, and should such Stranded Costs be recovered through a rate proceeding?

Decision No. 60977 is limited to the recovery of Stranded Costs pertaining to generation assets. AUs may have stranded costs by reason of competitive metering (meters and metering devices), billing and collection (computer equipment and other facilities acquired to furnish the billing and collection services). In the event a large number of customers choose to obtain meters from ESPs, the AU will have substantial Stranded Costs. Also, due to additional data required for non-profiled usage, existing meter equipment may become obsolete before the end of the equipment's useful life. Also, AUs may have Stranded Costs resulting from their inability to sell electricity (electrons). The UDC will not know until after competition is implemented as to the amount, if any, of such Stranded Costs. To require the UDC to recover its Stranded Costs through rates is contrary to the intent of the Rules as to who should pay for the AU's Stranded Costs. R14-2-1607.D provides that Stranded Costs shall be recovered from customers electing competition. Where is the fairness in charging a Standard Offer customer through increased rates for Stranded Costs resulting from the obsolescence of a computer system caused by large numbers of customers electing competitive billing and collection from the UDC's competitors?

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Method in Resolving this Issue.

Same as 6 above with the exception that stakeholders dissatisfied with the Commission's resolution would have a meritorious appeal pursuant to A.R.S. §40-254 if they wished to pursue it.

Timing of Such Resolution.

Same as 6 in the absence of such appeal.

8. Should R14-2-1617 (the "Affiliate Rules") be stricken and a Standard of Conduct statement replace it; if not, should ESPs be subject to the same Affiliate Rules as the AUs?

The Affiliate Rules are extremely complex and burdensome. Whether or not the Commission has the jurisdiction to prohibit an AU who has fulfilled its obligations to the public under the regulation of the Commission from performing Competitive Services in its certificated areas, except through an affiliate, is very doubtful,. Although an economist based on theory may believe that the only way there can be fair and unfettered competition is through the Affiliate Rules, the Rules completely ignore the vested property rights of the AUs who have devoted their property to a public use, who have been regulated by the Commission to assure the ratepaying public is fairly treated and who have fulfilled their obligations in accordance with such regulation. Strict Standard of Conduct rules should be a fair replacement for the Affiliate Rules. Should they remain in the Rules, they should also be applied to ESPs who are affiliated with other corporations.

Method in Resolving this Issue.

Same as 7 above.

Timing of Such Resolution.

Same as 7 above.

Should the prohibition in R14-2-1616.B pertaining to AUs and UDC's beginning 9. January 1, 1999, or beginning at a later date from providing competitive services as therein provided by eliminated?

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Under regulated monopoly, AUs were not only authorized to render electric service to their customers in their certificated areas pursuant to the rules, regulations, decisions and orders of the Commission, they were obligated to do so. Without having been guilty of any act or omission in their performance as a PSC, under this subsection of the Rules, the AUs are deprived of providing competitive services, subject to the limited exceptions in the Rules. Certainly, the provision in this subsection limiting the right of AUs and UDCs to continue to provide metering and meter reading service to competition customers is so unfair as to deprive AUs and UDCs of their property without due process of law.

Method in Resolving this Issue.

Same as 7 above.

Timing of Such Resolution.

Same as 7 above.

10. Should the provisions of R14-2-210.E.3 be deleted so that the statute of limitations for suits for underbilling or overbilling electric customers are deleted or should it be changed so that the statutes for such underbilling and overbilling will be the same?

The enactment of statutes of limitations are legislative functions reserved to the Legislature by the Constitution. The Commission has no jurisdiction to enact such statutes.

Method in Resolving this Issue.

Same as 7 above.

Timing of Such Resolution.

Same as 7 above.

Should there be restrictions or limitations on the Affected Utilities' reasonable 11. opportunity for recovery of unmitigated Stranded Costs?

R14-2-.1607.B does not provide for any restriction or limitation on such opportunity. However, R14-2-1607.E is inconsistent because it provides:

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"In making its determination of mechanisms and charges, the Commission shall consider at least the following factors:

The impact of Stranded Cost recovery on the effectiveness of competition."

Such restriction or limitation as well as others in the subsection are impermissible restrictions or limitations on such opportunity, and it is Trico's position that all of subsection R14-2-1607.E be stricken with the exception of the first sentence. Whether Affected Utilities have the right to such opportunity or such opportunity is subject to the grace of the Commission is a legal question involving preventing the denial of just compensation without due process of law under the federal and state Constitutions.

Method in Resolving this Issue.

Same as 7 above.

Timing of Such Resolution.

Same as 7 above.

Should providers of Standard Offer service be required to provide a consumer 12. information label as set forth in R14-2-1618 or the segregation of costs for the various elements of electric service as provided in R14-2-1613.O, especially when such segregation is not available to the providers?

R14-2-1618 provides that each Load-Serving Entity must prepare a consumer information label providing detailed information concerning the pricing of the elements of the electric service. R14-2-1613.O is similar except that the information to be furnished is based on the costs of such elements. It is Trico's position that this information is wholly unnecessary with respect to Standard Offer service. Any consumer can compare the total charge for the electric service whether made pursuant to a Standard Offer or a competitive offer by comparing his standard offer bill with the pricing from an ESP with respect to its competitive offer. That is all that is necessary. Presumably the basis for competitive electricity is to reduce the charges to the

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consumers. By placing on the providers numerous burdens, ultimately that can only increase the cost to the consumer which defeats the basis for electric competition.

Method in Resolving this Issue.

Same as 6 above.

Timing of Such Resolution.

Same as 6 above.

13. Should the Rules address implementation issues for UDCs?

With respect to UDCs the Rules are silent as to accounting, settlement, responsibility for distribution system loses and expansion and the application of load profiles for non-homogeneous customer groups such as small commercial users. These issues need to be addressed in the Rules.

Method in Resolving this Issue.

The stakeholders should informally attempt to resolve this issue within 60 days. If unsuccessful, the Commission upon 30 to 60 days prior written notice should hold an evidentiary hearing to decide the issue.

Timing of Such Resolution.

The issue should be resolved within 150 days.

14. Should the Commission establish one transmission company in Arizona and should it order another transmission company to sell its transmission equipment to the one?

Trico relies heavily upon AEPCO to furnish Trico with additional transmission facilities as Trico's electric system expands. It is Trico's position that because of its relationship with AEPCO, Trico does not want AEPCO divested of its transmission system. The Commission has no jurisdiction to require an AU which owns a transmission system to sell it to another AU or a new PSC.

Method in Resolving this Issue.

If this becomes an issue in the future, it can only be decided by the courts.

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Timing of Such Resolution.

It is difficult to estimate the time it will take to resolve the issue in the courts.

II. Comments on the January 4, 1999 Joint Proposal of the Attorney General and RUCO.

Trico offers the following comments as to the seven subject areas covered in the Attorney General/RUCO letter of January 4, 1999:

- 1. Procedural Order. The Hearing Officer's Procedural Order dated January 6, 1999, makes these suggestions moot.
- 2. Interim Unbundled Tariffs. Trico does not support the concept of interim unbundled tariffs. Implicit in this concept is the assumption that competition will begin in stages as various issues are resolved concerning particular Affected Utilities' service territories and The Commission should not adopt a piecemeal approach to the implementation of ESPs. competition as there is the danger that decisions in certain dockets may impact rulings in others. Competition should not commence until a new set of Rules is adopted by the Commission with sufficient time allowed for Affected Utilities to implement those Rules.
- 3. Identification of Remaining Issues. The Hearing Officer's Procedural Order dated January 6, 1999, has mooted this suggestion.
- 4. Consolidated Hearings on Each Affected Utility's Stranded Cost and Unbundled Tariffs' Filing. So long as there is a single final order of the Commission pertaining to the Stranded Costs and Unbundled Tariffs of the four AUs, Trico does not object to these schedules.
- 5. Competition Rules' Amendments. The Competition Rules should not be in effect during the other proceedings. The Rules, Stranded Costs decisions, Unbundled Tariffs decisions and any other matters that are essential to a proper implementation of competition should become effective on the same date by a single final decision of the Commission. Trico agrees with AEPCO, Duncan and Graham that there should be a new rulemaking docket for the Competition

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Rules and that the Commission should first receive the input of all stakeholders, including the general public, before formulating new Rules.

- 6. <u>Effective Date of Unbundled Tariffs</u>. Trico agrees that all unbundled tariffs and all other aspects of retail electric competition should be given the same effective date.
- 7. Settlement. Trico has not been invited to participate, nor has it participated, in any settlement conferences. It is obvious from the January 4 proposal that both the Attorney General and RUCO have not even alluded to the fundamental issue that must be resolved before any attempt to implement competition: The resolution of the constitutionality of the Rules and HB 2663 by the Arizona appellate courts. Trico does not object to certain stakeholders attempting to resolve pending issues by these settlement conferences so long as the Commission recognizes that these settlement conferences represent only those stakeholders involved therein and not all stakeholders. A cut-off date for settlement discussion seems improper.

Trico urges the Chief Hearing officer to enter a Procedural Order consistent with the comments set forth herein.

RESPECTFULLY SUBMITTED this 19th day of January, 1999.

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D. Michael Mandig

Attorneys for Trico Electric Cooperative, Inc.

Original and 10 copies of the foregoing document filed this 20th day of December, 1998, with

Docket Control Arizona Corporation Commission 1200 W. Washington Phoenix, Arizona 85007

Carol Watson

A. The Constitution has established the public policy of Arizona with respect to rates, charges and classifications of public service corporations ("PSCs") in Article XV that cannot be changed by the Commission or the Legislature. The Constitution created the Legislature, the Commission and how PSCs are to be dealt with pursuant to Article XV. Article XV can be changed only by the people by amending the Constitution pursuant to Article XXI.

- B. With respect to rates and charges:
- (1) Article XV, Section 3 provides: "The Corporation Commission ... shall, prescribe ... just and reasonable rates and charges to be made and collected, by public service corporations ..."

The Commission has the duty to prescribe, fix and establish the rates and charges of PSCs. The Rules unconstitutionally delegate such duty of the Commission to Electric Service Providers ("ESPs") based on market determined rates.

(2) Article XV, Section 14 provides: "The Corporation Commission shall, to aid it in the proper discharge of its duties, ascertain the fair value of the property ... of every public service corporation doing business [in the State] ..."

The rates to be charged by ESPs will not be based on the fair value of their property devoted to the public use, they will be based on the market. Certain ESPs such as marketeers and brokers will have no substantial property devoted to the public use.

- C. With respect to classifications:
- (1) Article XV, Section 3 provides: "The Corporation Commission ... shall prescribe just and reasonable classifications to be used ... by public service corporations"

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The Rules permit ESPs, aggregators and self-aggregators to classify customers of PSCs thereby violating the Commission's duty to prescribe classifications to be used by PSCs which is not delegable to ESPs, aggregators or self-aggregators.

- (2) Article XV, Section 2 provides: "All corporations other than municipal engaged in furnishing ... electricity for light, fuel or power ... shall be deemed public service corporations." The Rules acknowledge that ESPs are PSCs, yet they are a clearly distinguishable class of PSC. Affected Utilities ("AUs") have a duty to serve everyone applying for electric service within their certificated areas. ESPs do not. AUs as Utility Distribution Companies ("UDCs") have the duty of being the Provider of Last Resort. ESPs do not. AU must have property devoted to the public use. ESPs, especially as marketeers and brokers, have no property devoted to the public use. The only constitutional authority the Commission has with respect to classifications is to prescribe classifications to be used by PSCs, not classifications of PSCs. The Rules unconstitutionally establish classes of PSCs.
- (3) Article XV, Section 12 provides: "... no discrimination in charges ... shall be made between persons or places for rendering a like and contemporaneous service ..." The Rules unconstitutionally authorize ESPs, aggregators and self aggregators to discriminate by aggregating loads within the consumer classes prescribed for the PSC by the Commission.
- D. The Rules violate Article II, Section 17 by providing that ESPs, upon obtaining a certificate of convenience and necessity ("CC&N") have the right to compete with Trico in its certificated areas as to Competitive Services which constitutes a breach of the contract between the State of Arizona and Trico which arose out of the issuance by the Commission to Trico of a CC&N. Such contract constitutes a vested property right protected by Article II, Section 17. That Section requires that no property of Trico can be taken or damaged without compensation therefor having first been paid to the court or the state treasury on behalf of Trico before the property is taken or damaged and that just compensation shall be determined by the Courts, not the Commission.

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- E. The Rules violate Article II, Section 25 by impairing the obligation of contract between the State of Arizona and Trico and the Wholesale Power Contract between Trico and Arizona Electric Power Cooperative, Inc. ("AEPCO"), which provides that Trico shall purchase all of its electricity used to furnish its customers with electricity from AEPCO.
- F. The Rules violate the Supremacy Clause of Article VI of the United States Constitution, Article II, Section 3 of the Arizona Constitution and the Rural Electrification Act (United States Code Annotated, Title 7, Chapter 31, Subchapters I and III, as amended) by jeopardizing loans made by the United States to Trico and to AEPCO and by frustrating the Act by diverting benefits from the Act's intended beneficiaries to others such as ESPs who are not such intended beneficiaries.
- G. The Rules violate the Due Process Clause, Article II, Section 4 by unlawfully amending prior decisions of the Commission pertaining to Trico's CC&Ns, financing and ratemaking and by subjecting Trico to undetermined restrictions and regulations by the Commission when adequate standards have not been established to govern the discretion of the Commission.
- H. The Rules unlawfully restrict Trico from furnishing electricity to consumers within Trico's certificated areas.
- I. The Rules violate the Equal Protection Clause, Article II, Section 13, by burdening Trico with unlawful discriminatory restrictions and requirements which are not made applicable to competing ESPs.
- J. The Rules impermissibly interfere with the internal management and operations of Trico.
- K. The Rules and the Commission's Decision No. 60977 pertaining to Stranded Costs are unconstitutional in violation of the Due Process Clause of Article II, Section 4 in requiring divestiture of generation assets as required by R14-2-1616. A and in order for an AU to obtain 100% of unmitigated Stranded Costs as provided in Decision No. 60977.